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MINIMUM WAGE POLICY IN IRELAND

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ESRI ECONOMIC & SOCIAL RESEARCH INSTITUTE

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ABSTRACT

I provide an overview of minimum wage policy in Ireland over the past 20 years, and survey the recent evidence on the economic impacts of a minimum wage. Drawing on this evidence, I analyse the potential implications of the recent Covid-19 crisis on minimum wage employment in Ireland. The recent evidence shows that minimum wage increases in Ireland have not led to increased job loss among minimum wage workers, but have resulted in some reductions in hours worked among certain groups. Minimum wage increases have led to reductions in wage inequality and the minimum wage has been shown to be important in keeping wage inequality low during recessions. Recent estimates show that more than half of minimum wage employees in Ireland work in the retail, accommodation and food sectors. These sectors have experienced widespread business closures due to the Covid-19 crisis, suggesting that low-wage employees may be disproportionately impacted by job losses. Those who have lost their job may claim the Pandemic Unemployment Payment (PUP) of €350 per week. Minimum wage employees in retail or accommodation and food work, on average, 23 hours per week. This means that the PUP payment is 50 per cent higher than the gross weekly wage of the average minimum wage employee in these sectors. However, the PUP payment was an emergency short-term (12-week) measure, and it seems likely that it will be amended or tapered in coming weeks to address these types of anomalies.

1 INTRODUCTION AND POLICY BACKGROUND

Prior to April 2000, minimum wages in Ireland were set by industry-specific Joint Labour Committees (JLCs). However, most Irish workers were not covered by these agreements, and for those that were covered, wages were low and enforcement was weak (O'Neill, 2004). A national minimum wage was introduced in April 2000, at a rate of €5.58 per hour (or £4.40 in Irish pounds).[1] From 2000 to 2007, there were regular increases in the minimum wage, which reached €8.65 per hour in July 2007. However, 2008 saw the onset of a severe and prolonged economic downturn, during which time the unemployment rate increased from approximately 5 per cent in 2007 to 15 per cent in 2013.[2] Coinciding with the recession, there was a long period, from 2008 to 2015, during which the minimum wage did not increase. On one occasion, in January 2011, the minimum wage was reduced from €8.65 to €7.65 per hour. However, this decision was reversed six months later and the minimum wage was restored to its original level in July 2011.

1 This is provided for in legislation by the National Minimum Wage Act, 2000.

2 For a detailed overview of the Irish labour market over this period, see Bergin et al. (2020).

Against the backdrop of an economic recovery, the Irish Low Pay Commission was established in 2015, and tasked with providing the Irish government with yearly recommendations relating to the minimum wage. Following recommendations from the Low Pay Commission, the minimum wage was increased from €8.65 to €9.15 per hour in January 2016. This was the first increase in the minimum wage since July 2007. Based on recommendations from the Low Pay Commission, further yearly increases were implemented from 2017 to 2020. Table 1 lists the statutory minimum wage rates from 2000 to 2020. The current minimum wage in Ireland, as of January 2020, is €10.10 per hour for an experienced adult worker.

Sub-minimum wage rates exist for specific categories of employees. Prior to 2019, sub-minimum rates, expressed as a percentage of the full rate, existed for employees under 18 years of age (70 per cent), employees in their first year of employment (80 per cent), employees in their second year of employment (90 per cent), and those in structured training during working hours (75, 80 or 90 per cent, depending on level of progression). In 2019, following recommendations from the Low Pay Commission, the training rates were abolished and sub-minimum rates were simplified to age-based rates only. For employees under 18 years, the hourly rate is €7.07. For those aged 18, it is €8.08 and for those aged 19 it is €9.09. Recent evidence on the incidence of sub-minimum wage employment indicates that, of all minimum wage employees, 85 per cent earn the minimum wage while just 15 percent earn less than the minimum wage (McGuinness et al., 2020).[3] In the discussion that follows, we define minimum wage employees as those earning the minimum wage or less. Given the small sample sizes involved in sub-minimum wage employees, carrying out separate analysis for this subgroup is typically not feasible.

[3] Previous work by Kelly and McGuinness (2017), using 2009 National Employment Survey data, also showed a very low incidence of sub-minimum wage employment.

TABLE 1 HOURLY MINIMUM WAGE RATES FOR ADULT WORKERS IN IRELAND (2000–2020)

Date	Minimum wage (€)	Increase in minimum wage (€)	Increase in minimum wage (%)
1 April 2000	5.58 (£4.40)	–	–
1 July 2001	6.00 (£4.70)	0.42	7.5
1 October 2002	6.35 (£5.00)	0.35	5.8
1 February 2004	7.00	0.65	10.2
1 May 2005	7.65	0.65	9.3
1 January 2007	8.30	0.65	8.5
1 July 2007	8.65	0.35	4.2
19 January 2011	7.65	–1.00	–11.6
1 July 2011	8.65	1.00	13.1
1 January 2016	9.15	0.50	5.8
1 January 2017	9.25	0.10	1.1
1 January 2018	9.55	0.30	3.2
1 January 2019	9.80	0.25	2.6
1 January 2020	10.10	0.30	3.1

Source: www.lowpaycommission.ie

Internationally, statutory minimum wages are a commonly used policy tool. As of 2019, 22 EU member states, including Ireland, had a statutory minimum wage (Eurofound, 2019). The aim of minimum wage policy, as outlined by the Irish Low Pay Commission, is to assist as many low-paid workers as possible without creating adverse consequences for employment. A large body of research examines the employment effects of minimum wage increases, while another strand of literature attempts to quantify the benefits to low-paid employees. In this paper, I will review this evidence, paying particular attention to the recent evidence that has emerged regarding minimum wage policy in Ireland. I will then draw on this evidence to examine the potential implications of the Covid-19 crisis for minimum wage employment in Ireland.

The remainder of the paper is structured as follows. Section 2 discusses the incidence of minimum wage employment in Ireland, as well as the average characteristics of minimum wage employees. Section 3 surveys the evidence on the economic impacts of minimum wage policies. Section 4 outlines the potential implications of the Covid-19 crisis on minimum wage employment in Ireland, and Section 5 concludes.

2 MINIMUM WAGE EMPLOYMENT IN IRELAND: INCIDENCE AND EMPLOYEE CHARACTERISTICS

In quarter 2 of 2016, following consultation with the Low Pay Commission, a question was added to Ireland's Labour Force Survey (LFS) that directly asks

respondents whether they are in receipt of the minimum wage.[4] Pooling recent years of data from 2017 to 2019, I calculate the incidence of minimum wage employment in Ireland (Table 2). While just 8 per cent of all employees in Ireland are minimum wage workers, this incidence varies substantially depending on sector. Two sectors alone, *retail* and *accommodation and food*, account for more than half of all minimum wage employees.[5] In terms of the incidence of minimum wage employment within sectors, approximately 20 per cent of employees in the *retail* sector are in receipt of the minimum wage. For *accommodation and food*, this is higher, at 30 percent. Just five percent of employees in all other sectors, which are pooled together, are in receipt of the minimum wage.

TABLE 2 INCIDENCE OF MINIMUM WAGE EMPLOYMENT IN IRELAND (2017 TO 2019)

Sector	Incidence of MW employment (%)
Retail	20 (n=9934)
Accommodation and food	30 (n=7099)
Other sectors	5 (n=80,448)
Overall incidence	8 (n=97,481)

Source: Irish Labour Force Survey.

While the LFS captures information from individuals, Redmond and McGuinness (2020) use firm-level data from the Earnings, Hours and Employment Costs Survey (EHECS) to show a detailed breakdown of the concentration of minimum wage employment across firms in Ireland. Approximately one quarter of firms have at least one minimum wage employee. However, this varies substantially across sectors. Approximately 50 per cent of firms in the accommodation sector, 44 per cent of firms in the food and beverage sector, and 43 per cent of retail firms have at least one minimum wage employee. However, just 10 per cent (approximately) of firms in finance and insurance, construction, IT and legal sectors have at least one minimum wage employee. Redmond and McGuinness (2020) also present evidence relating to the intensity of minimum wage employment, defined as the percentage of a firm's workforce that are on the minimum wage. Of the firms with at least one minimum wage employee, 20 per cent of their workforce, on average, consist of minimum wage employees. Again, there are some notable sectoral differences; the corresponding figure for firms in retail and accommodation and

4 The question states the minimum wage rate, and asks employees if their wage is equal to, below or above this rate.

5 The retail sector corresponds to NACE Rev 2, code 47 – *retail trade, except for motor vehicles.* The accommodation and food sector consists of NACE Rev 2, codes 55 (*accommodation*) and 56 (*food and beverage service activities*).

food is 30 per cent. Redmond and McGuinness (2020) then use the EHECS data to examine the impact of the 2016 minimum wage increase on the average labour cost of firms employing minimum wage workers. On average, labour costs of firms with minimum wage workers did not increase by more than average labour costs of firms with no minimum wage workers. However, a subset of firms, with more than 50 per cent of employees on the minimum wage, did experience higher labour costs. These types of firms account for just 3 per cent of all firms.

The LFS data can be used to profile the average characteristics of minimum wage employees in Ireland (CSO, 2019). With respect to gender, 45 per cent of minimum wage employees are male and 55 per cent are female. In terms of the overall incidence by gender, 6.8 per cent of all male employees are minimum wage workers compared to 8.3 per cent of females. Minimum wage employment is also heavily concentrated among younger people. While 15–24-year-olds account for approximately 10 per cent of all employees in Ireland, they make up half of all minimum wage employees. Approximately 60 per cent of minimum wage employees work part-time, compared to 20 per cent for the economy overall. Minimum wage employment is also disproportionately made up of non-Irish nationals, who account for 23 per cent of minimum wage employees, compared to 18 per cent of employees overall.

3 EVIDENCE ON THE IMPACT OF MINIMUM WAGES

This section brings together the evidence relating to the impact of minimum wage policies. Several areas will be discussed, including the impact of a minimum wage increase on employment and wage inequality, as well as the labour market transitions of minimum wage employees and the degree of compliance with minimum wage legislation in Ireland.

3.1 Employment effects

When designing and implementing a statutory minimum wage, policymakers must try to balance the benefit to low-paid workers against the possibility of generating adverse employment effects, such as reduced employment or reduced hours of work. Economic theory can provide a guide to the expected employment effects, which depend on how we view the labour market. In a perfectly competitive labour market, a binding minimum wage can lead to unemployment. However, in a monopsony setting, employers can use their market power to set wages below the perfectly competitive level.[6] In this case, a minimum wage will not reduce, and may actually increase, employment. Manning (2003) suggests that monopsony is more

[6] In the standard monopsony model, there is just one buyer of labour (one employer) and many sellers of labour (potential employees). For example, there may be just one large employer in a rural town. This is different from a perfectly competitive market where there are many buyers of labour (employers).

relevant in modern labour markets. However, the degree of monopsony power will vary across industries (Bachmann and Frings, 2017).

A vast empirical literature exists that tries to detect and measure the employment effects of minimum wage policies. Quite often, the literature produces conflicting evidence, which has generated much debate and disagreement among academics and policymakers alike. Some recent studies find evidence of reduced employment (see e.g. Harasztosi and Lindner, 2019; Caliendo et al., 2018; Clemens and Wither, 2019) or reduced hours (see e.g. Jardim et al., 2017; Aitken et al., 2019) as a result of a minimum wage increase. However, other work finds little to no impact on employment or hours (see e.g. Cengiz et al., 2019; Dolton et al., 2015). Most studies examine the effect of an increase in the minimum wage. However, Feliciano (1998) and Dolado et al. (1996) find little compelling evidence that reducing a minimum wage can increase employment during an economic downturn. In related work, Addison et al. (2013) find limited evidence of negative employment effects associated with minimum wage increases during a deep recession.

McGuinness and Redmond (2019) examine the impact of the 2016 increase in the Irish minimum wage (from €8.65 to €9.15 per hour) on the hours worked and employment of minimum-wage workers. They find no evidence that the minimum wage increase led to a higher probability of minimum wage employees becoming jobless, nor did it affect employment shares in sectors with a high concentration of minimum wage employees. However, there was a reduction in hours worked of approximately 0.6 per week, with larger reductions for temporary contract workers, at three hours per week.[7] O'Neill et al. (2006) study the introduction of the minimum wage in Ireland in 2000 and find little to no effect on employment.

Studies such as McGuinness and Redmond (2019) and Dickens et al. (2015) indicate heterogeneity in employment effects among subgroups of minimum wage employees. Therefore, examining all minimum wage workers may hide employment effects that exist among specific groups. McGuinness et al. (2019) test for potential heterogeneity in hours worked among minimum wage workers across regions and sectors in Ireland following the 2018 minimum wage increase (from €9.25 to €9.55 per hour). While overall there is no evidence of a change in hours, the study reveals regional and sectoral effects. The regional effects were primarily concentrated in Dublin, where minimum wage employees saw a reduction of approximately 1.6 hours per week. There was also some weak evidence of a reduction in hours in the west, but no effect in the border/mid-east, mid-west/south-east, south-west or midland regions. Aitken et al. (2019) undertake a similar type of analysis for the UK and detect regional variation consistent with the Irish results, namely a reduction of approximately 1.5 to 2 hours per week that is

[7] McGuinness and Redmond (2019) note that over the same period there was decrease in the incidence of involuntary part-time work (people who could not find a full-time job). Therefore, they cannot rule out the possibility that incentive effects, whereby more individuals were choosing to work fewer hours by virtue of the increase in the minimum wage, contributed to the reduction in average hours worked.

confined to London. While we cannot yet point to the exact reasons for the regional disparities, variation in local labour markets may play a role. Okudaira et al. (2019) argue that variation in local labour markets can account for heterogeneous minimum wage impacts in Japan, where negative employment effects primarily show up in competitive labour markets where employers have less market power. McGuinness et al. (2019) also highlight sectoral heterogeneity in Ireland, with hours reductions after the 2018 rate rise concentrated among minimum wage employees in manufacturing.

3.2 Wage inequality and poverty

By providing a legally binding wage floor for the lowest paid workers in the economy, the introduction, or uprating, of minimum wages may be expected to impact wage inequality. Redmond et al. (2020) use distributional regression techniques to analyse the impact of the 2016 minimum wage increase on the hourly wage distribution in Ireland. Following that increase, wage inequality, measured by the ratio of wages in the 90th and 10th percentiles and the 75th and 25th percentiles, reduced by 8 and 4 per cent respectively. Redmond et al. (2020) also detect wage spillovers, whereby workers earning above the minimum wage also experienced a wage rise. These spillovers extend to the 30th percentile of the wage distribution. Wage spillovers may occur because employees are concerned about their relative standing in the wage distribution, and use the wages of their peers as a basis for comparison (Dube et al., 2019). Wage spillovers associated with minimum wage increases have also been found for the UK (Butcher et al., 2012). Holton and O'Neill (2017) analyse wage inequality in Ireland over the business cycle. They highlight the importance of a minimum wage during an economic downturn. By providing a binding wage floor, the minimum wage in Ireland prevented large wage reductions for the lowest paid workers during the during the economic downturn of 2008 to 2013. The importance of a minimum wage in combating wage inequality during an economic downturn is relevant in light of recent analysis that indicates the Irish economy will experience an economic contraction in 2020 (McQuinn et al., 2020).

While a minimum wage is shown to reduce wage inequality, the extent to which it reduces poverty or income inequality is less clear, and will largely depend on the number of minimum wage workers in low-income households. Maitre et al. (2017) find that 17 per cent of minimum wage employees belong to a household that is at risk of poverty, compared to 3.3 per cent of non-minimum wage employees. Therefore, while minimum wage employees are at greater risk of poverty than non-minimum wage employees, the vast majority of all minimum wage workers are not at risk of poverty. As such, a minimum wage may be a blunt instrument for tackling poverty (Low Pay Commission, 2018). Redmond et al. (2020) show that minimum wage workers in Ireland are spread throughout the household income distribution and are often located in high-income households. As such, the 2016 minimum wage

increase had a more limited impact on income inequality compared to its impact on wage inequality. However, the minimum wage is an important source of income security for certain workers. As noted by McGuinness et al. (2019), some employees are 'career minimum wage workers'. Unlike employees for whom the minimum wage may be a short-term stepping-stone to higher pay, career minimum wage workers are solely dependent on statutory minimum wage increases to boost their income. According to McGuinness et al. (2019), career minimum wage workers are more likely to be male, work full-time and work in the manufacturing sector.

3.3 Labour market transitions

Examining the labour market transitions of minimum wage employees provides information on whether minimum wage employment is likely to be a long-term state or a stepping-stone to higher paid work. Redmond et al. (2018) study the labour market transitions of minimum wage employees in Ireland and find that minimum wage employees are more likely to transition to higher pay than stay in minimum wage employment over a nine-month period. The vast majority of transitions to higher pay happen within the same employer, as opposed to switching jobs. The Irish evidence is broadly consistent with international studies that show the minimum wage is likely to act as a stepping-stone to higher paid work (Smith and Vavrichek, 1992; Schiller, 1994). The results show that young people, those with lower levels of education, part-time workers and individuals on temporary employment contracts are less likely to transition from minimum wage to higher pay. Non-Irish nationals, relative to Irish nationals, are approximately 13 percentage points less likely to transition from minimum wage to higher pay.

Redmond et al. (2018) also find a higher transition rate into unemployment or inactivity among minimum wage employees compared to higher paid employees. Compared to the highest paid workers in the economy, minimum wage employees are 10 percentage points more likely to become unemployed or inactive.

3.4 Compliance with minimum wage legislation

Much of the literature on the economic impacts of a minimum wage implicitly assumes that the minimum wage is fully enforceable. However, a certain degree of non-compliance seems likely, and this could influence potential wage, income or employment effects associated with minimum wage policies. Estimating the degree of non-compliance with minimum wage legislation is inherently difficult. Previous studies for the US (U.S. Bureau of Labor Statistics, 2019) and the UK (UK Low Pay Commission, 2019) estimate the percentage of workers that appear to be paid below the minimum wage rate. However, these studies cannot separate workers who are legitimately exempt from those who are illegally paid sub-minimum rates. Moreover, the UK estimate uses employer data, and given the illegal nature of the activity, it is unlikely that employers will accurately report paying employees less than their legal entitlements.

McGuinness et al. (2020) utilise a novel question in Ireland's LFS to estimate minimum wage non-compliance in Ireland. The question in the LFS directly asks employees whether they are paid the minimum wage or below. If they indicate they are paid below the minimum wage, they are asked for the reason. Some reasons are allowable by law, such as an age-based rate. However, there is a response category called 'other' that is likely to indicate a reason other than those based on legal exemptions. McGuinness et al. (2020) find that 5.6 per cent of minimum wage employees are paid below the minimum wage rate for reasons other than those permitted under legislation. Relative to legally compliant minimum wage workers, non-compliant minimum wage employees are more likely to be male, Irish, aged over 35, have lower education levels and be on temporary contracts. With regard to occupations, working in personal care services, childcare and agriculture is associated with an increased probability of non-compliant sub-minimum wage employment. The findings of McGuinness et al. (2020) use data from a period of strong economic growth and a buoyant labour market. If the predictions of an economic contraction associated with Covid-19 materialise in Ireland, there is a danger that non-compliance could worsen if employees find themselves with less bargaining power in the labour market. As such, this is an issue that warrants ongoing attention.

4 IMPLICATIONS OF THE COVID-19 CRISIS FOR MINIMUM WAGE EMPLOYMENT

In the previous analysis, I showed that minimum wage employment is heavily concentrated in the *retail* and *accommodation and food* sectors. These sectors alone account for half of all minimum wage employees. These are also sectors facing significant disruption due to widespread business closures. Given the significant impact of the Covid-19 crisis on these sectors, I examine the characteristics of their employees. For each sector, I profile the characteristics of all employees and of minimum wage employees separately.

The average characteristics of employees in *retail*, *accommodation and food,* and *other* sectors are shown in Table 3. Women make up 63 and 55 per cent of all employees in *retail* and *accommodation and food* respectively. There is a higher percentage of women among minimum wage employees: 65 per cent of minimum wage employees in *retail* and 60 per cent of minimum wage employees in *accommodation and food* are women. Compared to other sectors, employees in *retail* and *accommodation and food* have lower levels of education. Approximately 30 per cent of all employees in these sectors are educated to tertiary level, compared to 56 per cent in other sectors. The rate of tertiary education among minimum wage employees across all sectors is lower, at 16 to 19 percent. We also see significant differences in hours worked by sector and by employee type. The average weekly hours worked among all employees in *retail* and *accommodation and food* is 30 hours per week, compared to just 22 hours and 23 hours respectively

among minimum wage employees. In other sectors, the average weekly hours worked is 36 hours per week for all employees and 30 hours per week for minimum wage employees. There is also a higher incidence of part-time work, students and temporary contracts among minimum wage employees. Finally, non-Irish nationals are heavily concentrated in the *accommodation and food* sector: 33 per cent of all employees and 29 per cent of minimum wage employees in *accommodation and food* are non-Irish nationals. Taken together, the results in Table 3 indicate that women, part-time workers, those with lower education levels, non-Irish nationals and those on temporary employment contracts may be disproportionately impacted by job losses in the *retail* and *accommodation and food* sectors.

An important caveat is required at this point. While many retail outlets have closed, essential retail services such as supermarkets remain open, and their employees remain in jobs. Therefore, not all workers in the *retail* sector will be affected. It is also important to point out that employees in other sectors are not immune to the economic disruption and job losses associated with Covid-19. Quantifying the full extent to which the Covid-19 crisis affects employment across sectors will be an important avenue for research in the near future.

TABLE 3 CHARACTERISTICS OF EMPLOYEES IN THE *RETAIL* AND *ACCOMMODATION AND FOOD* SECTORS AND OTHER EMPLOYEES

	Retail employees		Accommodation and food employees		Other employees	
	All	**MW**	**All**	**MW**	**All**	**MW**
Female	63%	65%	55%	60%	48%	46%
Tertiary education	29%	16%	30%	19%	56%	19%
Hours worked	30	22	30	23	36	30
Part-time	41%	72%	43%	70%	16%	42%
Temporary contract	13%	35%	18%	35%	8%	29%
Student	16%	43%	22%	44%	6%	26%
Non-Irish national	18%	14%	33%	29%	16%	22%
Sample size	15,521	2778	10,992	3095	127,525	5558

Source: Labour Force Survey (2017–2019).
Note: Tertiary education is defined as ISCED (2011) levels 5 to 8.

When public health measures are eased and parts of the economy begin to reopen, some employees may re-enter their previous roles or find new jobs in similar roles. However, given the international scale of this crisis, it seems likely that tourism will take a long time to recover. When hotels and restaurants re-open, operating social-distancing measures may be difficult and may not be financially viable for some. Therefore, the *accommodation and food* sector, which employs one quarter of all

minimum wage employees, could be facing a more prolonged period of disruption than other sectors.

In response to the job losses associated with the Covid-19 public health emergency, the Irish government introduced the Pandemic Unemployment Payment (PUP) for those who lost their jobs due to the crisis. The PUP consists of a flat rate of €350 per week. From Table 3, we know that the average minimum wage employee in the *retail* and *accommodation and food* sectors worked approximately 23 hours per week. This equates to a gross weekly wage of €232.30. This means that the PUP payment is 50 per cent higher than the gross weekly wage of the average minimum wage employee in the *retail* and *accommodation and food* sectors. Recent work by Beirne et al. (2020) estimates that the income from PUP may leave approximately 120,000 low-income families financially better off than if they were in employment. However, it should be noted that the PUP payment was an emergency measure introduced at short notice for a specified period of time (12 weeks). It seems likely that this payment will be altered or tapered at the end of the 12-week period.[8]

The relatively high (compared to standard jobseeker's benefit) PUP payment may also have implications for those considering returning to employment when the economy begins to reopen. There is now an added health risk for those who are working and this will result in a higher reservation wage. Therefore, individuals in receipt of PUP, and even those on standard jobseeker's benefits, may for a given wage rate, be less willing to accept a job now than before the crisis. Notably, several large retailers in Ireland have recently implemented wage increases for their employees, which may be indicative of a higher reservation wage among these workers.[9]

In addition to PUP, the Irish government implemented the Covid-19 Temporary Wage Subsidy Scheme (TWSS) to encourage employers to retain employees on their books, thereby maintaining the employer–employee link. For employers that participate, the Irish government refunds part of the employee's wage. From 4 May 2020, the subsidy will be 85 per cent (increased from 75 per cent) for employees with a previous average take-home pay below €412 per week. Therefore, TWSS will result in fewer employees on PUP than otherwise would have been the case, potentially making the transition back to employment easier for some.

Finally, there are fears among academics and policymakers that the Covid-19 crisis could exacerbate inequalities in health and wages.[10] The evidence on the impact of minimum wages on inequality is particularly relevant at this time. Redmond et al. (2020) have shown that the 2016 increase in the Irish minimum wage was

8 See comments from the Minister for Finance, Paschal Donohue, on 22 April 2020. https://www.rte.ie/news/business/2020/0422/1133037-esri-on-bleak-economic-forecasts/

9 Including Dunnes, Aldi and Tesco. See https://www.rte.ie/news/business/2020/0330/1127359-dunnes-stores-covid-premium-payment/

10 See for example the recent interview with Nobel laureate Joseph Stiglitz, https://www.investopedia.com/nobel-winner-joseph-stiglitz-on-income-inequality-after-covid-19-4843052

associated with a reduction in wage inequality, with the ratio of wages in the 90th and 10th percentiles falling by 8 per cent. Holton and O'Neill (2017) have shown that a minimum wage is particularly important during a recession; by preventing the wages of the lowest paid workers from falling below a certain level, wage inequality stays relatively low. Given that the Covid-19 crisis will result in an economic contraction, the minimum wage may be an important policy to counteract inequality.

5 CONCLUSION

This paper provided an overview of minimum wage policy in Ireland over the past 20 years, along with an assessment of the recent evidence on the economic impacts of minimum wages, both internationally and specifically for Ireland. Drawing on this evidence base, the implications of the Covid-19 crisis on minimum wage employment in Ireland were discussed.

Approximately 8 per cent of employees in Ireland are minimum wage workers. Compared to all employees, minimum wage employees are more likely to be women, younger, part-time and non-Irish nationals. There is a heavy concentration of minimum wage employees in the *retail* and *accommodation and food* sectors, with these two sectors alone accounting for half of all minimum wage employees. Given the widespread business closures recently experienced in these sectors due to the Covid-19 crisis, the lowest paid workers in the economy are likely to be heavily impacted by job losses. As the economy gradually reopens, some individuals will be able to return to work. However, tourism is unlikely to recover in the near term. In addition, hotels and restaurants may find it difficult to operate under social distancing requirements. This could lead to longer-term disruption in the *accommodation and food* sector, which employs a quarter of all minimum wage employees.

The Pandemic Unemployment Payment (PUP) of €350 per week was introduced in response to job losses resulting from the Covid-19 crisis. Given that minimum wage employees generally work fewer hours, the PUP payment is 50 per cent higher than the gross weekly wage of the average minimum wage employee in the *retail* and *accommodation and food* sectors. The PUP payment was introduced as a temporary (12-week) emergency measure. Current indications are that it may be changed or tapered in the coming weeks.

The recent evidence on the economic impacts of a minimum wage indicate that minimum wage increases in Ireland have not led to greater job losses among minimum wage employees, but were associated with a reduction in hours worked among some groups of workers. Minimum wage employment also appears to be a stepping-stone to higher pay for many workers. However, minimum wage employees are more likely to enter unemployment or inactivity compared to higher

paid workers. Recent minimum wage increases in Ireland were associated with reduced wage inequality.

The key policy question over the next 12 months will be whether the minimum wage should be increased, be decreased or remain the same. During the last recession, the minimum wage was temporarily reduced in January 2011, with the decision being reversed after six months. This type of policy action may be discussed again in the coming months, and the existing evidence needs to be considered carefully before decisions are made. We know that increases in the minimum wage reduce wage inequality and that the presence of a minimum wage during the last recession helped to prevent wage inequality from increasing. Therefore, reducing the minimum wage could lead to higher wage inequality. The rationale for reducing the minimum wage would be to increase employment among low-paid workers. However, there is little evidence to show that minimum wage changes in Ireland affect employment. The evidence for Ireland typically examines the impact of minimum wage increases, which have occurred during times of economic growth, and therefore we do not know how employment reacts to a reduction in the minimum wage during a recession. However, internationally, there is no compelling evidence that minimum wage reductions may increase employment during a recession. These are issues that will need to be considered by the Low Pay Commission and policymakers in the coming months.

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